

Rating Rationale

Motidan Construction Sewa Private Limited

Rating

Facility	Amount (Rs. In Million)	Rating ¹	Rating Action
Long Term Bank Facilities	455.40	CARE-NP BB [Double B]	Reaffirmed and removal of issuer not cooperating and notice of withdrawal category
Short Term Bank Facilities	435.00	CARE-NP A4 [A Four]	Reaffirmed and removal of issuer not cooperating and notice of withdrawal category
Long/Short Term Bank Facilities	4,709.60	CARE-NP BB/A4 [Double B/ A Four]	Reaffirmed and removal of issuer not cooperating and notice of withdrawal category
Total Facilities	5,600.00		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed rating of ‘CARE-NP BB’ assigned to the long-term bank facilities and ‘CARE-NP A4’ assigned to the short-term bank facilities of Motidan Construction Sewa Private Limited (MCS). In absence of requisite information for monitoring the ratings, CRNL was unable to express an opinion on the ratings of MCS and in line with the extant Securities Board of Nepal (SEBON) guidelines, CRNL had reviewed the rating on the basis of the best available information and placed the rating in “issuer not cooperating and notice of withdrawal” category. However, MCS upon submission of requisite information, CRNL has carried out a full review of the ratings and the ratings have been removed from issuer not cooperating and notice of withdrawal category.

Analytical approach:

CRNL has analysed MCS’s credit profile by considering the Standalone financial statements.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of MCS are constrained by decline in total revenue of the company in FY20 (Unaudited, refers to 12 months’ period ended mid-July 2020) mainly due to impact of Covid-19 on the business of the company and tender based nature of operations in highly competitive construction industry. The rating is further constrained by debt funded capex plan of the company, working capital intensive nature of business which deteriorated during FY20 and exposure to volatile interest rate. The ratings, however, derive strength from experienced promoters & management in related field, improvement in PBILDT margin in FY20, moderate capital structure and debt service indicators of the company and established track record in executing diverse construction projects. The ratings also factor in MCS’s healthy order book position with mid-term revenue visibility along with escalation clause in majority of the contracts, ownership of sizable equipment and moderate counter party risk. Ability of the company to successfully execute projects in time and recover contract proceeds and ability to manage healthy revenue growth and maintain profitability margins without deterioration in its financial risk

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com

profile will be key rating sensitivities. Further, ability to manage the impact of Covid-19 on the operations and financials of the company during FY21 will be the key rating sensitivity.

Impact of Covid-19 on the business of the company

The global outbreak of Coronavirus disease 2019 (Covid-19) has affected Nepal as well. Government of Nepal (GoN) imposed countrywide lockdown since March 24, 2020 halting operations of most of the organizations and slowing down of the economic activities. The construction activities of the company were also subdued on account of the lockdown. Also, since construction activities in Nepal usually takes momentum on second half of the financial year and with country's economy and construction sector being significantly impacted since March 2020, it had a negative impact on the revenue and profitability of the company in comparison to the normal operations. The company's ability to achieve its projected revenue for FY21 and maintain profitability margins will be key rating consideration.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Deteriorated financial performance in FY20, however with improvement in PBILDT margin

Total revenue of the company declined by ~43% in FY20 majorly due to lower execution of contracts in hand on account of negative impact of Covid-19 on the operations mainly being mining works for various cement companies. With decline in total revenue, PBILDT of the company also declined by ~12%, however with improvement in PBILDT margin from 13.52% in FY19 to 20.88% in FY20 majorly due to increase in rental income from renting of equipment to various projects under JVs. Also, PAT of the company declined by ~78% in FY20 due to increase in interest expenses with increase in working capital loans to fund operations. However, the Gross Cash Accruals of the company declined on lower side in comparison to the sales and PAT in FY20 due to improvement in PBILT margins and higher depreciation.

Tender based nature of operations in highly competitive construction industry

The company receives its work orders from government departments and private entities with majority of works from government contracts. The contracts are tender-based and the revenues are dependent on the company's ability to bid successfully for these tenders. The promoters' long industry experience of 10 years mitigates risk of competition to some extent. Also, there are numerous fragmented and unorganized players operating in this industry which makes the civil construction space highly competitive and the ability of MCS to maintain its profitability margins and growth in future remain crucial.

Debt funded capex plan of the company

The company has been making regular investments to expand its infrastructure facilities in the past and is expected to continue in future. MCS is expected to make capital expenditure of Rs. 285 Mn in FY21 for purchase of various equipment to support increasing operations of the company. It is expected that the company will take additional loans for purchase of equipment/machineries for the new projects proposed to be undertaken in future.

Working capital intensive nature of business

The operations of the company are working capital intensive in nature as the company primarily works with government departments and funds are released only after the work certification process is completed and finalization of the bills. Average collection period has increased to 176 days in FY20 from 83 days in FY19 mainly due to higher revenue booked at year end as well as slower realization from private parties due to impact of Covid-19 leading to high debtors at the end of the year. The total operating cycle of the company was 9 days in FY19 which increased to 59 days in FY20. These factors lead to reliance of the company on bank finance to meet its working capital requirements.

Key Rating Strengths***Experienced promoters & management team in the related field***

MCS is being promoted by Mr. Ram Bahadur Gautam and his family members holding 100% of total shares. Mr. Ram Bahadur Gautam, managing director, has extensive experience of more than 15 years in the field of construction business. Mr. Bikram Gautam, assistant managing director, is involved in the company for the past 6 years and is looking after the project procurement, financial and technical analysis. The promoters have also been infusing funds into the company to support the business. Equity share capital of the company which stood at Rs. 10 Mn in FY18 was increased to Rs. 50 Mn in FY19 which was further increased to Rs. 100 Mn in FY20. Further, directors of the company had infused fund of Rs. 100 Mn as director's loan during FY20 which is proposed to be converted into equity share capital during FY21.

Established track record in executing roads, bridges, buildings, cross drainage works, canals and mining and transportation projects

MCS has an established track record of over 10 years in the construction of roads, bridges, cross drainage works, buildings, canals, and mining and transportation of Limestone projects and have executed several projects across the country in different terrains. The long track record has enabled the company to establish relations with its customers thereby resulting into repetitive orders/ tenders from the government departments as well as private entities.

Healthy order book position with mid-term revenue visibility

Till November 06, 2020, the unexecuted orders in hand of the company stood at Rs. 4,155 Mn. Also, the present order book to FY20 revenue on stand-alone basis is around 4.94x which provides healthy revenue visibility. The order book of the company is mainly concentrated in road works (~72%) coupled with other various projects such as mining works, irrigation works, building works, bridge works, etc. received from various government authorities (majorly) which further includes more than 14 National Pride Projects of Nepal as well and private entities. Timely completion of the projects and thereby increasing its scale of operations would be critical from the credit perspective for MCS.

Moderate capital structure and debt service indicators of the company

The capital structure of the company is marked with moderate debt equity ratio of 1.46x and overall gearing ratio of 2.19x at the end of FY20 (vis-à-vis 1.01x and 1.93x respectively at the end of FY19). Interest coverage ratio of the company was moderate at 2.75x in FY20. Total Outside Liabilities/ Tangible Networth (TOL/TNW) and Total debt/ Gross Cash Accruals of the company was also at moderate level of at 2.90x and 6.36x in FY20.

Ownership of sizable equipment

MCS has built up an adequate asset base to execute its projects with total fixed asset of Rs. 719 Mn in FY20. Efficient deployment of the resources and investment in machinery during the past years has helped in timely execution of projects.

Moderate counter party risk

Major revenue of MCS is generated from government contracts related to road works, building works, irrigation works etc. Payment of dues are generally realized within 1 to 2 months. The counter party risk is moderated by the fact that major contracts are obtained from government departments and it has been making timely payment to the company in past.

Escalation clause in majority of the contracts

MCS procures its construction materials mainly from the local vendors which has risk of volatility in raw material prices. The company has inbuilt price escalation clauses in majority of contracts in order to insulate the company from any adverse fluctuation in construction material prices and labor expenses.

About the Company

MCS, incorporated in March 03, 2009 and based in Kathmandu, is a mid-scale construction company in Nepal. The company is promoted by Mr. Ram Bahadur Gautam and his family members with over 15 years of experience in civil construction business. The company is mainly involved in mining works, construction of roads, bridges, building, irrigation works etc. across Nepal. MCS also enters into joint venture (JV) with other companies in order to meet the eligibility criteria for the projects. The consolidated revenue of the company includes revenue from JV entities in proportion of the company's stake in the JV.

Brief financials of MCS (standalone) for last three years ending FY20 are given below:

For the year ended Mid July	FY18	FY19	FY20
	(Audited)	(Audited)	(Provisional)
Income from Operations	617	1,469	841
PBILDIT	146	199	176
PAT	24	59	13
Overall Gearing (times)	3.14	1.93	2.19
TOL/ TNW (times)	6.51	4.04	2.90
Interest Coverage (times)	3.06	4.02	2.75

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Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. In Million)	Rating
Long Term Bank Facilities	Term Loan	455.40	CARE-NP BB
Short Term Bank Facilities	Working Capital Loan	435.00	CARE-NP A4
Long Term/Short Term Bank Facilities	Non-Funded Loan	4709.60	CARE-NP BB/A4
Total		5,600.00	